



April 2025

# Monthly Economic Review



**Lee Hopley**  
Director, Economic  
Insight and Research

Data point to diverging fortunes for the UK's services and production sectors – we review the latest GDP and survey data at the start of 2025. The OBR downgrades growth outlook, while the Chancellor announces increased investment and spending cuts. Finally, we look at the latest data for the buy-to-let sector.

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## Sector fortunes diverging

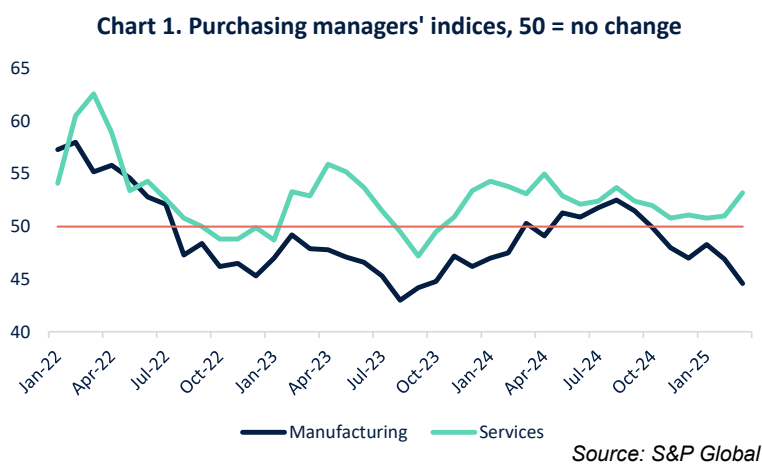
Last month we covered the fairly weak GDP growth picture at the end of 2024. The latest monthly data from ONS point to a 0.1 per cent contraction in January – so on the face of it, not much sign of things improving at the start of 2025. But digging into the performance across sub-sectors there are a few more encouraging signs of growth.

January's fall in output was largely driven by a contraction in the production sector, where output fell by 0.9 per cent in January. There were particularly hefty falls in mining and quarrying (-3.3 per cent), and manufacturing (-1.1 per cent). January wasn't an anomaly – both sub-sectors have had a near-constant run of quarter-on-quarter contractions in output over the past year. Worth noting, however, that not all parts of manufacturing have been similarly challenged in recent quarter, with food, metal products, and repair and maintenance all having a decent 2024.

Also in negative territory was construction output (down by 0.2 per cent on the month), though this followed a recovery in output, particularly on the back of new work in the second half of 2024. Surveys, however, pointed to subdued confidence about the demand outlook across the sector, though the prospect of increased public spending on housing and infrastructure could provide a boost this year.

There was a stronger start to the year for services, up 0.1 per cent in January and 0.4 per cent in the three months to January compared with the previous three months. Health, administrative services, and wholesale and retail were notable contributors to growth in services.

A few other data points suggest that the divergence of performance between manufacturing and services is set to persist, and perhaps accelerate, in the coming



months (**chart 1**). The latest flash purchasing managers' indices (PMIs) showed a (somewhat unexpected) pickup in services activity, with the index hitting a seven-month high as providers reported increasing new work. There was also a bit more optimism about the pipeline

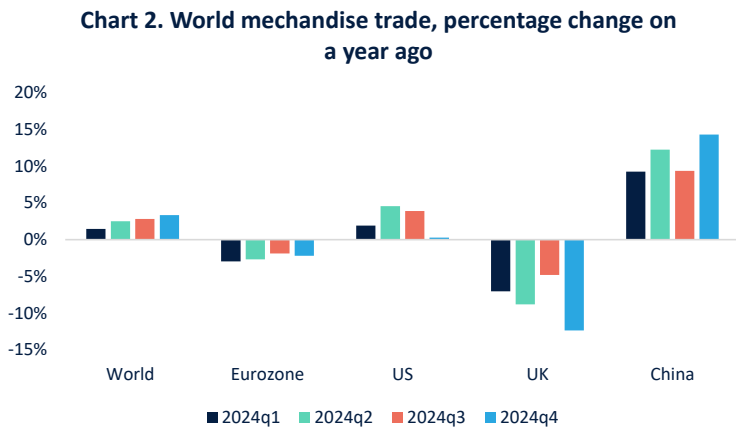
of future sales.

The manufacturing index, however, is heading firmly in the other direction. March's flash reading was an 18-month low and the monthly drop in production was the largest since October 2023. Respondents reported a particularly sharp downturn in export sales and heightened concerns about geopolitical tensions and uncertainty around US trade policy. The UK manufacturing PMI is also something of an outlier compared with the eurozone, where indices point to an easing in the pace of contraction.

## Exports have struggled

Recent survey indicators of a challenging export environment, such as the PMI above, are not a new phenomenon. UK exporters have been struggling certainly since the end of the pandemic, and before that as firms grappled with new trading arrangements with the European Union. UK merchandise exports (**chart 2**) were lower in each quarter in 2024 compared with the same period the previous year. This is in contrast to a gradual improvement in global export growth across the year.

Separate ONS data show that in 2024 goods exports to the EU were down six per cent



Source: Netherlands Bureau for Economic Policy Analysis

on 2023, and to non-EU markets, nearly four per cent lower. Looking at individual commodity groups falls were universal in 2024.

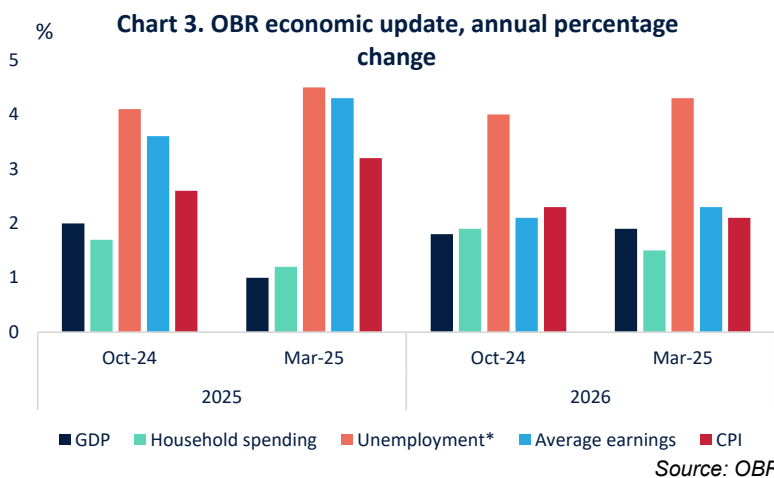
While the EU also saw a weak export picture last year, a challenging global demand backdrop and competition from emerging markets provides a partial explanation

for the UK struggles. ONS BICs survey data certainly highlight issues with demand – across manufacturing (principally the source of goods exports) with a net balance of businesses consistently reporting weakening international demand over the past nine months.

Additionally, businesses also continue to report friction when exporting, including additional paperwork, transport and logistics challenges, customs levies, and border checks. There is (still) a lack of certainty about the direction of US trade policy, but economists are in broad agreement that full steam ahead on tariffs will hit growth and push up prices. And it creates an even more challenging backdrop to reviving the UK’s goods trade fortunes.

## OBR forecast update

As was widely expected, the Office for Budget Responsibility (OBR) made some fairly significant revisions to its economic and fiscal outlook, published alongside the



Source: OBR

Chancellor’s spring statement last month (chart 3). The OBR now expects the economy to expand by one per cent in 2025, half the rate of its October forecast. The downgrade is partly a consequence of the weaker than expected growth in the second half of last year. In addition, the

forecast also takes account of recent labour force revisions, which point to weaker

productivity than previously thought, expectations of higher energy costs and interest rates, more fragile business and consumer confidence, as well as external risks from geopolitical and trade tensions.

While that represents something of a cocktail of risks and bad news, there were some upsides, with boosts to capital spending and housebuilding making a positive contribution to growth over the forecast period.

The OBR's updated inflation forecast falls broadly in line with that of the Bank of England, with CPI expected to pick up this year on the back of higher energy and other regulated prices. In the near-term household consumption is expected to be subdued, but will likely strengthen over the forecast period, supported by a fall in the savings rate.

While revisions to the economic outlook were widely anticipated, there was perhaps more attention on the OBR's assessment of the fiscal outlook and the Chancellor's response to it. The top line from the OBR was that the underlying fiscal position had deteriorated – higher debt interest costs, higher spending and weaker self-assessment and corporation tax receipts were the main culprits.

In response to the expectation of higher borrowing, the Chancellor announced a number of measures to reduce spending – principally reforms to the welfare budget and some changed to the composition of departmental spending. She also had to accommodate the previously announced increase in defence spending, in addition to increased housing investment.

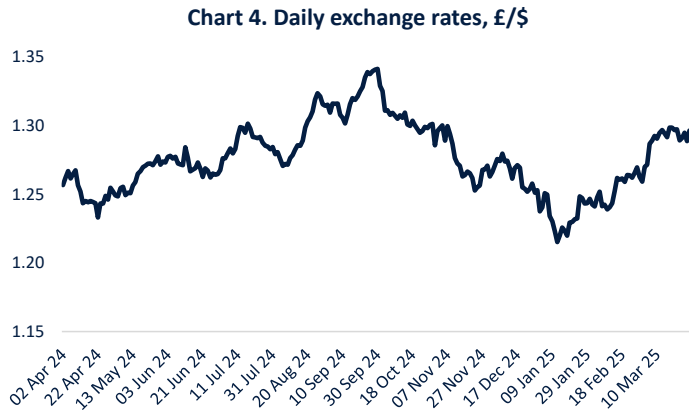
Together, the measures meant that the fiscal rules – current budget in balance and public sector net financial liabilities falling at the end of the forecast period – are met in the central forecast. But as was the case back in the autumn, there is little very little room for error. Given the list of risks to the outlook, outlined above, what little headroom is available could quickly be wiped out ahead of the OBR's next update in the autumn.

While there was a muted from the bond markets to the statement, the clear commitment to sticking to the fiscal mandate, therefore, leaves the prospect of tax rises or further cuts on the table later this year, should further challenges to growth crystallise. With businesses already increasingly citing taxation as a business challenge (see for example the ONS BICS survey), the possibility that further rises will fall on businesses could continue to weigh on confidence.

Upcoming announcements on industrial strategy, small business strategy, trade deals and, of course, the spending review, will need to set a clear long-term vision on support for investment, innovation and growth.

## Exchange rates

Sterling has gradually strengthened against the US dollar since the start of this year



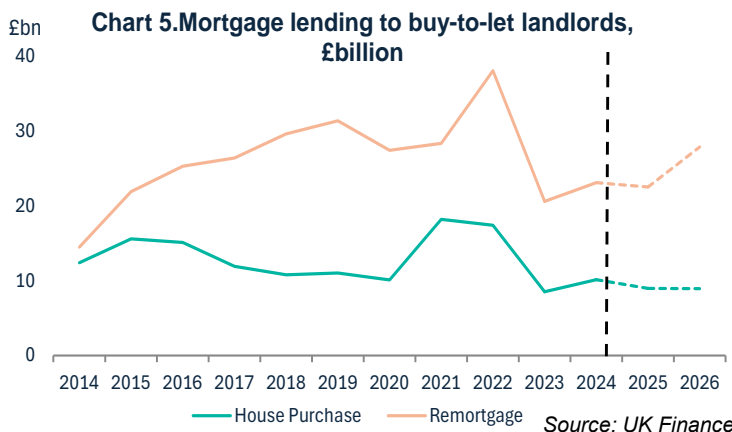
Source: Bank of England

(**chart 5**). Tariff uncertainty, and the impact of trade tensions on the US economy, have been weighing on the dollar. Some nuggets of better UK news (February retail sales beat expectations) and a higher inflation outlook have provided a bit of support for sterling. In addition, there was a muted currency market reaction to the Spring statement.

Looking ahead, however, market analysts don't expect this trend to continue. The inflationary impact of incoming tariffs will put some upward pressure on the dollar. However, a loss of investor faith in the US economy could see an outflow of foreign capital – assuming there is a more attractive home for it. Sterling is likely to be sensitive to news on everything from confidence to the public finances. Volatility rather than strength is a more likely direction of travel in the near-term.

## Buy-to-Let latest

In 2024 the buy-to-let (BTL) market saw moderate improvement. A gradual easing in the cost and rate pressures that held back lending in 2023, combined with continuing strong rental demand, drove growth in both purchase and remortgage markets. In Q4



Source: UK Finance

2024, 52,648 new buy-to-let loans were advanced in the UK, worth £9.6 billion - up 39.2 per cent by number and 47.2 per cent by value year-on-year.

yet recovered to pre-2023 levels.

Although growth looks to have continued into the early months of 2025 however, lending has not

As BTL market interest rates fell - from 5.70 per cent in Q4 2023 to 5.09 per cent a year on - affordability improved for BTL customers, with the average buy-to-let interest cover ratio (ICR) rising by 21 basis points to 201 per cent.

After rising through 2023, BTL arrears numbers stabilised in early 2024 before falling back through the second half of the year. There were 12,610 buy-to-let mortgages in arrears greater than 2.5 per cent of the outstanding balance in Q4 2024, a seven per cent decrease year-on-year. With fewer customers newly entering arrears or curing from early arrears positions, the BTL arrears cases are dominated by older mortgages, taken out well before stricter underwriting criteria came into effect in 2017.

Whilst falling interest rates have improved affordability in the BTL market, the overall environment for landlords remains challenging. The additional two per cent Stamp Duty surcharge, announced in the Autumn Budget, is a further deterrent to BTL purchase activity in a market already facing significant regulatory and taxation challenges. In the face of this, we expect a modest seven percent contraction in the BTL market through 2025 (**chart 5**).

## ICYMI and coming up...

In March we published our Q4 [Household Finance Review](#) and [Business Finance Review](#), looking at developments in finance across 2024 as well as Q4.

We also published updated regional mortgage factsheets. You can find more information [here](#).

**Coming up this month:** Buy-to-let mortgage update (2<sup>nd</sup> April) and Card spending update (16<sup>th</sup> April).

## Key indicators

Indicator	Period	Value	Change	2025 Forecast
GDP	Q4 2024	0.1%	↑	1.0%
CPI inflation	Feb 2025	2.8%	↓	2.8%*
Unemployment rate	Jan 2025	4.4%	↔	4.6%*
Average earnings	Jan 2025	5.8%	↓	3.5%
Brent crude	Feb 2025	\$75.44	↓	-
\$ Exchange rate	Mar 2025	\$1.29	↑	-
Bank Rate	Mar 2025	4.5%	↓	3.9%*

Source: ONS, HM Treasury, Bank of England, EIA

\*Q4 2025